



Graphite India Limited

Q1 FY2013 Earnings Presentation



Important Notice



Forward Looking Statements

This presentation contains statements that contain “forward looking statements” including, but without limitation, statements relating to the implementation of strategic initiatives, and other statements relating to Graphite India’s future business developments and economic performance.

While these forward looking statements indicate our assessment and future expectations concerning the development of our business, a number of risks, uncertainties and other unknown factors could cause actual developments and results to differ materially from our expectations.

These factors include, but are not limited to, general market, macro-economic, governmental and regulatory trends, movements in currency exchange and interest rates, competitive pressures, technological developments, changes in the financial conditions of third parties dealing with us, legislative developments, and other key factors that could affect our business and financial performance.

Graphite India undertakes no obligation to publicly revise any forward looking statements to reflect future / likely events or circumstances.



Financial Highlights

Q1 FY2013 Standalone Performance

- Net Sales increased by 30.8% y-o-y
- Net Profit increased by 10.0% y-o-y
- Electrode sales volume increased by 15.0% y-o-y
- Average capacity utilization increased from 79% in Q1 FY2012 to 89% in Q1 FY2013

Commenting on the results and performance, **Mr. K. K. Bangur, Chairman of Graphite India** said:

“In the context of the challenging economic environment, we are pleased to announce an overall satisfactory financial performance. The global steel industry continues to remain under pressure due to the ongoing uncertainty in the European markets and weakening of Chinese demand. However, the domestic steel industry has shown relatively strong growth along with the slow and steady recovery in the US.

With its strong market positioning and low cost high quality manufacturing base, Graphite India is optimally positioned to build upon its strong relationship with global customers. The Company is focused on margin enhancement through operational efficiencies and cost optimization. We are delighted that Graphite India has recently been awarded with ‘Defence Technology Absorption Award 2011’ by the Defence Research and Development Organization (DRDO).”



Business Snapshot

Global Market Position	Best-in-Class Operations	Attractive Industry Dynamics	Strong Financial Performance
❖ Largest Indian producer of graphite electrodes by total capacity ❖ One of the leading players in a highly consolidated industry ❖ Accounts for 6.5% of global electrode capacity ❖ Diversified global client base with no client accounting for more than 6.0% of revenues	❖ Strong quality with 56% of electrode production exported in competition with global players ❖ Focus on efficiency and productivity resulting in industry leading operating margins ❖ Secured supplies of key raw material, needle coke ❖ Access to low cost sources of power	❖ Electrodes are critical to the electric arc furnace (EAF) steel making process, with no substitutes available ❖ Strong secular support for EAF route due to significant advantages over traditional blast furnace method ❖ EAF¹ is expected to contribute 50% (with current level of 30%) of global steel production by 2020 ❖ Consolidated industry with significant entry barriers due to technology intensive nature of operations	❖ Steady double-digit revenue CAGR over the past five years despite a global slowdown ❖ Strong cost management resulting in average EBITDA margins of approximately 24% from FY 2008 to FY 2012 ❖ Steady growth in exports ❖ Strong balance sheet with low leverage ❖ History of consistent profitability even during challenging pricing environments

Graphite India is globally well positioned through its product quality, scale of operations and manufacturing platform base

Note:

1. 08th April 2011, The Financial Express



Q1 FY2013 Financial Performance – Standalone

Standalone Performance

(₹ Crore)	Q1 FY2013	Q1 FY2012	% Y-o-Y Growth	Q4 FY2012	% Q-o-Q Growth	FY2012	FY2011	% Y-o-Y Growth
Gross Sales ¹	428	327	30.8%	463	(7.5)%	1,696	1,249	35.8%
Net Sales (incl Other Operating Income)	418	319	30.8%	452	(7.7)%	1,671	1,226	36.3%
Operating Profit ²	78	68	13.5%	105	(25.9)%	346	313	10.3%
% Margin	18.6%	21.4%		23.2%		20.7%	25.6%	
Net Profit ⁴	41	37	10.0%	103	(60.6)%	238	172	38.1%
% Margin	9.7%	11.5%		22.8%		14.2%	14.1%	
Basic EPS (₹)	2.08	1.89	10.0%	5.27	(60.6)%	12.18	9.19	32.5%

Notes:

- 1 Gross Sales includes excise duty
- 2 Operating Profit defined as earnings before depreciation, interest, exceptional items and taxes; includes other income
- 3 All margins calculated as a percentage of Net Sales (incl Other Operating Income)
- 4 Q4 FY2012 Net Profit includes ₹ 29.6 Crore profit on the sale of the entire shareholding in Carbon International Holdings NV (CINV), a wholly owned subsidiary



Q1 FY2013 Segment Financial Performance – Standalone

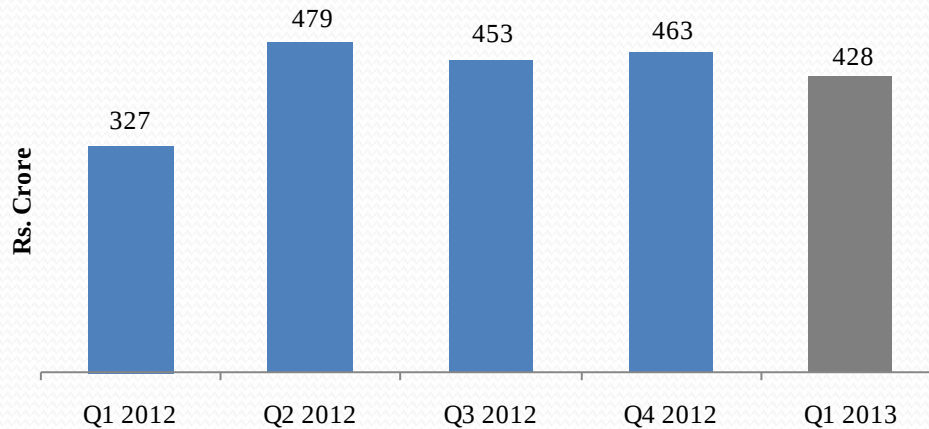
Standalone Performance

(₹ Crore)	Q1 FY2013	Q1 FY2012	% Y-o-Y Growth	Q4 FY2012	% Q-o-Q Growth	FY2012	FY2011	% Y-o-Y Growth
Net Sales	418	319	31.0%	452	(7.7)%	1,671	1,226	36.3%
Graphite and Carbon	366	272	34.1%	386	(5.2)%	1,432	1,036	38.4%
Power	3	6	(42.6)%	9	(63.0)%	34	34	(1.2)%
Steel	24	9	163.6%	24	(1.0)%	91	80	13.0%
Unallocated	34	39	(13.1)%	49	(31.4)%	163	119	36.9%
Less: Intersegment	(9)	(7)		(16)		(49)	(43)	
EBIT	80	61	31.1%	81	(1.3)%	322	267	20.8%
Graphite and Carbon	75	52	44.2%	53	41.3%	253	207	22.0%
Power	1	4	(86.3)%	6	(90.8)%	25	26	(2.9)%
Steel	0	(2)	<i>nm</i>	12	<i>nm</i>	12	1	<i>nm</i>
Unallocated	4	7	(39.3)%	11	(61.5)%	32	33	(2.7)%



Quarterly Financial Performance – Standalone

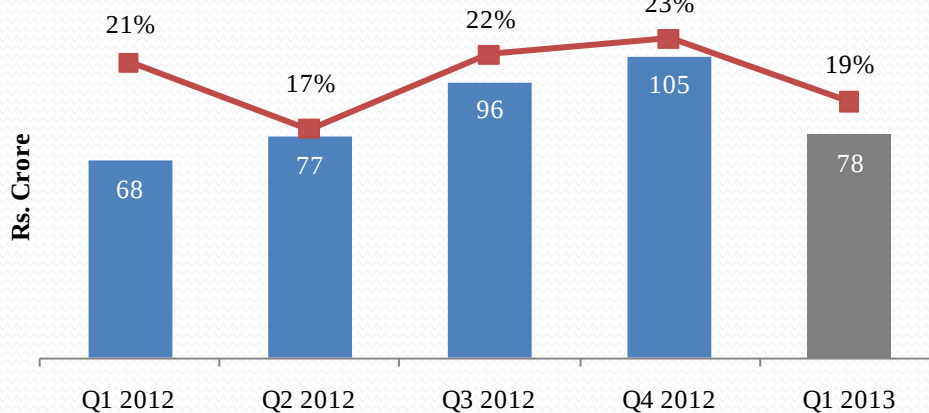
Gross Sales



Historical Trends

- ❖ Lower electrode sales volume in Q1 FY2013 as compared to Q4 FY2012
- ❖ Q4 FY2012 Increase in sales primarily due to better contribution by all segments other than steel
- ❖ Lower electrodes sales volumes in Q3 FY2012. In Q2 FY2012, it was higher due to the clearance of backlog
- ❖ Robust sales volume growth of ~40% coupled with the steady pricing in Q2 FY2012
- ❖ Higher volumes and steady electrode prices in Q1 FY2012 on a y-o-y and sequential basis

Operating Profit and Margins



Note:

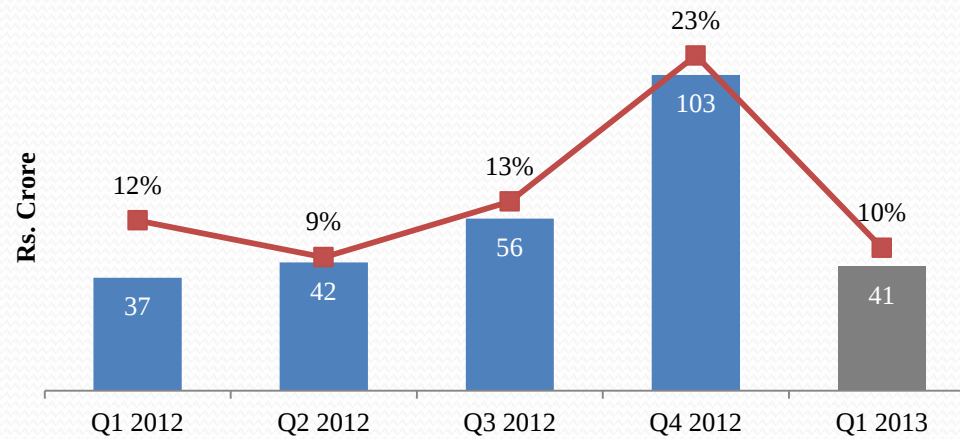
1 All numbers shown are for the standalone business

- ❖ Q1 FY2013 margins contracted due to increase in input costs
- ❖ Better contribution from steel and other segments in Q4 FY 2012
- ❖ Margins benefited from improved productivity and optimum capacity utilizations in Q3 FY2012
- ❖ Higher operating profits offset by increasing input costs and adverse forex fluctuations in Q2 FY2012
- ❖ Increase in input costs other than needle coke in Q1 FY2012 on a y-o-y and sequential basis



Quarterly Financial Performance – Standalone

Net Profit and Margins



(Rs. Crore)	Standalone 30.6.2012	Standalone 31.3.2012
Secured Debt	360	336
Unsecured Debt	92	126
Total Debt	452	462
Less: Cash & Cash Equivalents	231	235
Net Debt / (Net Cash)	221	227
Net Worth	1,602	1,562
Net Debt / Equity (x)	0.14	0.15

Note:

1 All numbers shown are for the standalone business

Historical Trends

- ❖ Lower Operating Profits in the quarter and exceptional gain in Q4 FY2012
- ❖ Q4 FY2012 Net Profit increased due to higher Operating profit and profit on the disposal of Carbon International Holdings NV
- ❖ Q3 FY2012 Net Profit increased due to higher operating profits despite an increase in finance costs
- ❖ Q2 FY2012 Net Profit margins moderated due to lower operating margins due to foreign exchange loss
- ❖ Lower Operating Profit along with higher incidence of taxation in Q1 FY2012

Capital Structure

- ❖ Outstanding shares as of June 30, 2012 is 195,375,594
- ❖ Significant financial flexibility available for future organic / inorganic growth



Strategic Initiatives

Durgapur Plant Expansion

- ❖ Electrode capacity expansion plan of 20,000 MT per annum
 - Continue to position Graphite India as the largest Indian producer of graphite electrodes
 - Key drivers are access to capital at competitive costs and anticipated improvement in electrode demand in the medium term
 - Eco-friendly advanced technology and greater energy efficiency
 - Cost of expansion is expected to be Rs. 255 Crore, is being funded through internal accruals and debt
 - Part of the Durgapur Plant facility has already been commissioned and the balance is likely to be commissioned in phases by Q3 FY2013 in synchronization with the manufacturing cycle.



Performance Outlook

Revenues

- ❖ Global steel industry continues to remain under pressure. Ongoing uncertainty in the European and Chinese markets
- ❖ Domestic steel industry performing relatively well along with a steady recovery in the US
- ❖ Well positioned to capitalize on expected incremental demand for electrodes through increased capacity and low cost manufacturing
- ❖ Exports to continue to show strong volume growth
- ❖ Part of the Durgapur Plant facility has already been commissioned and the balance is likely to be commissioned in phases by Q3 FY2013 in synchronization with the manufacturing cycle
- ❖ Continue to win businesses from existing and new clients

Costs

- ❖ Optimum capacity utilization levels
- ❖ Continued focus on cost efficiency and productivity
- ❖ Needle coke supplies secured for FY2013 at increased but competitive prices



Graphite India: At a Glance

Company Background

Graphite India is the largest Indian producer of graphite electrodes and one of the largest globally, by total capacity. Its manufacturing capacity of approximately 98,000 tonnes per annum is spread over four plants at Durgapur (54,000 MT post expansion), Bangalore (13,000 MT), Nashik (13,000 MT) and Nurnberg in Germany (18,000 MT). The Company accounts for approximately 6.5% of global electrode capacity and has over 40 years of technical expertise in the industry. With its corporate office in Kolkata, India, the Company services its clients in over fifty countries, with no client accounting for over 6% of revenues. Exports account for approximately 56% of revenues and export volumes increased over 3 times from FY2001 to FY2012. Graphite India manufactures the full range of graphite electrodes but stays focused on the higher margin, large diameter, ultra-high power (“UHP”) electrodes. Approximately 85% of the Company’s total capacity is currently UHP.

Graphite India is well poised in the global graphite electrode industry through its quality, scale of operations and low cost production base. The Company’s competitive edge was particularly evident during the last decade, when low prices for graphite electrodes resulted in many of the leading players generating losses, but Graphite India however remained consistently profitable and declared dividends. The Company experienced steady double digit revenue CAGR over the past

five years despite a global slowdown. Graphite India currently has a conservative leverage profile, with significant financial capacity for organic or inorganic expansion.

The Company’s strategy is to become further vertically integrated, continue its penetration of new markets and clients as well as pursue value enhancing inorganic growth opportunities. Graphite India also manufactures Calcined Petroleum Coke (“CPC”) for use in electrode manufacturing. It is enhancing its presence in value added graphite products for the auto, aerospace, chemical, pharmaceutical, metallurgical and machine tool industries.

The Company is further targeting focused reductions in its manufacturing costs. The capacity expansion plan at its Durgapur (West Bengal) plant is progressing well. Part of the Durgapur Plant facility has already been commissioned and the balance is likely to be commissioned in phases by Q3 FY2013 in synchronization with the manufacturing cycle. This will increase capacity by 20,000 MT per annum, taking the total capacity towards 100,000 MT per annum.

The Company also has facilities designed for the manufacture of impervious graphite equipment and glass reinforced plastic pipes and tanks. It has an installed capacity of 33 MW of power generation through hydel and multi-fuel routes.

Industry

Graphite electrodes are used in electric arc furnace (“EAF”) based steel mills and is a consumable item for the steel industry. The graphite electrode industry is highly consolidated with the top five major global players accounting for 75% of the high end UHP electrode capacity. Majority of this capacity however, is currently located in high cost regions like US, Europe and Japan. The manufacturing process, for the high end UHP electrodes is technology intensive and is a significant barrier for the entry of new players. Due to the global economic recession, demand for electrodes is currently less than total installed capacity of 1.2 million MT, of which UHP capacity is 0.9 million MT. Global steel production continues to recover post-recession. The EAF method of manufacturing steel is becoming increasingly attractive due to its low capital costs, lower breakeven tonnage, and flexibility in locating plants closer to consumption points and significantly lower pollution levels than in the blast furnace steel plants. As a result, EAF production has increased from 180 million tonnes in 1985 to 407 million MT in 2011.





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